

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton; and  
Robert G. Taub

Competitive Product Prices  
Global Expedited Package Services Contracts  
Non-Published Rates

Docket No. MC2012-4

Competitive Product Prices  
Global Expedited Package Services Contracts  
Non-Published Rates 3 (MC2012-4)

Docket No. CP2012-8

ORDER APPROVING POSTAL SERVICE REQUEST TO ADD  
GLOBAL EXPEDITED PACKAGE SERVICES–NON-PUBLISHED RATES 3  
(GEPS—NPR 3) TO COMPETITIVE PRODUCT LIST

(Issued January 20, 2012)

I. INTRODUCTION

In accordance with 39 U.S.C. § 3642 and 39 CFR 3020.30 *et seq.*, the Postal Service seeks to add a new product identified as Global Expedited Package Services–Non-Published Rates 3 (GEPS–NPR 3) to the competitive product list within the Mail Classification Schedule (MCS). Pursuant to 39 CFR 3015.5, the Postal Service filed

notice of the creation of a GEPS – NPR 3 model contract.<sup>1</sup> For the reasons discussed below, the Commission approves the Request.

## II. BACKGROUND

In support of its Notice, the Postal Service filed six attachments as follows:

- Attachment 1—an application for non-public treatment of materials filed under seal;
- Attachment 2A—a redacted version of Governors' Decision No. 11-6;
- Attachment 2B—a revised version of MCS 2510.8 GEPS-NPR;
- Attachment 2C—a redacted version of Management's Analysis of the Prices and Methodology for Determining Prices For Negotiated Service Agreements Under Global Expedited Package Services – Non-Published Rates 3;
- Attachment 2D—a list of Maximum and Minimum Prices for EMI, PMI, and GXG under GEPS–NPR 3 Contracts;
- Attachment 2E—a certified statement concerning prices for applicable negotiated service agreements under GEPS–NPR 3 rates, as required by 39 CFR 3015(c)(2);
- Attachment 3—a Statement of Supporting Justification similar to the Statement of Supporting Justification used to support the classification of GEPS–NPR 1, and as required by 39 CFR 3020.32; and
- Attachment 4—a redacted version of the GEPS–NPR 3 model contract.

As background, the Postal Service notes that the GEPS—NPR 1 and GEPS—NPR-22 products, which were approved by the Commission on November 22, 2010 and December 30, 2010, respectively, offer incentive pricing to small- and medium-size

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<sup>1</sup> Request of the United States Postal Service to Add Global Expedited Package Services—Non-Published Rates 3 (GEPS—NPR 3) to the Competitive Products List and Notice of Filing GEPS—NPR 3 Model Contract and Application for Non-Public Treatment of Materials Filed Under Seal, December 20, 2011 (Request).

businesses that satisfy prescribed capability requirements and commit to use Express Mail International (EMI) and Priority Mail International (PMI) products at minimum levels of revenue. *Id.* at 5. The Postal Service believes the instant contract is supported by Governors' Decision No. 11-6, attached to the Notice, which authorizes management to prepare any necessary product description of nonpublished competitive services, including text for inclusion in the MCS. *Id.* at 8, Attachment 2A. On December 21, 2011, the Commission approved the new rates for Global Express Guaranteed (GXG), EMI, and PMI, which become effective January 22, 2012.<sup>2</sup> *Id.* Consequently, as the Postal Service notes, the "changes to the published rates for GXG, EMI, and PMI, as well as the addition of GXG to the GEPS – NPR model contract, will affect more than the inputs page of the GEPS – NPR financial model." *Id.*

The Postal Service lists changes it has adopted for the GEPS—NPR 2 model contract that are included in the GEPS – NPR 3 model contract, including general contract terms and other differences that distinguish the instant contract from the GEPS—NPR 2 contract, all of which are highlighted in the Notice. *Id.* at 5-8. The Postal Service states that none of the changes except for the addition of GXG affects the rate design used to generate rates for GEPS—NPR. It also avers that the changes do not affect the market characteristics of the GEPS—NPR product. *Id.* at 6-8.

The Postal Service notes that the GEPS—NPR 3 product differs from GEPS—NPR 2 in three respects, which cause changes in rates and the financial model. First, it adds GXG, which is set forth in a minor classification change included in the filing as Attachment 2B. *Id.* at 8. Second, it increases the minimum annualized revenue commitment a mailer must agree to in order to sign a GEPS—NPR 3 contract. *Id.* These changes affect the financial models used to generate new rates for the GEPS—NPR 3 contract. *Id.* Lastly, the rates differ from those in GEPS—NPR 2 to reflect the new GXG, EMI, and PMI rates approved in Docket No. CP2012-2. *Id.*

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<sup>2</sup> Docket No. CP2012-2, Order Approving Changes in Rates of General Applicability for Competitive Products, December 21, 2011 (Order No. 1062).

The Postal Service also contends that its filings demonstrate that the new GEPS—NPR 3 contract complies with the requirements of 39 U.S.C. § 3642. It states that the product does not qualify as market dominant, the items covered by the contract are not subject to the Private Express Statutes, and the proposed classification reflects required market considerations. *Id.* at 9-10.

In Order No. 1073, the Commission gave notice of the two dockets, appointed a public representative, and provided the public with an opportunity to comment.

### III. COMMENTS

Comments were filed by the Public Representative.<sup>3</sup> No other interested person submitted comments. The Public Representative states that it appears that the contract complies with 39 U.S.C. §§ 3632, 3633, and 3642, as well as 39 CFR 3015 and 3020 subpart B. *Id.* at 1. She notes that while there are differences between GEPS—NPR 3 and its predecessors, the product is very similar to GEPS—NPR 2 and likely to result in continued profitability. *Id.* at 2. She notes that there are two substantial differences, the first of which is that GEPS—NPR 3 allows customers to receive Global Express Guaranteed prices. *Id.* Second, the minimum revenue requirement increased from \$50,000 to \$200,000, which will affect the number of small and medium-sized businesses seeking to enter a GEPS—NPR 3 contract. *Id.* She encourages the Commission to consider the impact of the change on small businesses, but does not think the change prevents the product from meeting the requirements of 39 U.S.C. § 3633(a). *Id.* at 3.

The Public Representative affirms that her review of the contract and supporting materials filed under seal indicates that the product will meet the requirements of

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<sup>3</sup> Public Representative Comments, January 6, 2012 (PR Comments).

39 U.S.C. § 3633(a), and that the addition of GXG will enhance its ability to do so. *Id.* She recommends the approval of GEPS—NPR 3.

#### IV. COMMISSION ANALYSIS

The Postal Service's filing presents two issues: (1) whether GEPS—NPR 3 should be added to the competitive product list; and (2) whether the rates pursuant to the methodology underlying the GEPS—NPR 3 product satisfy 39 U.S.C. § 3633(a) and 39 CFR part 3015. Based on a review of the instant filing and the supporting justification filed in Docket Nos. MC2012-4 and CP2012-8, the Commission approves the Postal Service's request to add GEPS—NPR 3 to the competitive product list.

*Product Classification.* GEPS—NPR 3 is the successor to GEPS—NPR 2, which, in Order No. 630, was classified as a competitive product. The changes identified by the Postal Service do not require reconsideration of that determination.

*Cost considerations.* The Postal Service indicates that none of the changes to the GEPS—NPR model contract, with the exception of the addition of GXG, affects the rate design used to generate rates. Request at 7-8. The Postal Service affirms that prices set pursuant to the methodology underlying GEPS—NPR 3 product would be in compliance with 39 U.S.C. § 3633(a). *Id.*, Attachment 3 at 2-3. Financial modeling in support of the GEPS—NPR 3 product, including a cost coverage analysis, indicates a result of "adequate cost coverage to ensure that no cross subsidization of this product by market dominant products should occur," and demonstrates that the product "should be able to contribute to institutional costs in addition to covering its own attributable costs." *Id.* at 3.

With respect to the Public Representative's comments concerning the increase in the minimum revenue requirement, the Commission notes that the Postal Service previously discussed alternatives for current and potential GEPS customers who do not meet the minimum revenue requirement of a proposed GEPS—NPR product. In support of its original GEPS—NPR product, the Postal Service explained that any

customer wishing to “engage in a EMI/PMI negotiated service agreement that is functionally equivalent to GEPS, but [that fell] outside of the established GEPS Non-published Rate tier, then that [customer’s] negotiated service agreement would need to be within the scope of Governors’ Decision 08-[7] and be classified under the original GEPS product.”<sup>4</sup> In other words, customers, including those with expiring GEPS–NPR 2 agreements, that do not meet the minimum revenue requirement for the GEPS–NPR 3 may either seek to negotiate an individual GEPS NSA or opt to use Commercial Plus pricing.<sup>5</sup>

Based on a review of the data submitted in support of the GEPS—NPR 3 rates, the Commission finds that the rates for GEPS—NPR 3 contracts should cover their attributable costs (39 U.S.C. § 3633(a)(2)), should not lead to the subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)), and should have a positive effect on competitive products’ contribution to institutional costs (39 U.S.C. § 3633(a)(3)).

## V. ORDERING PARAGRAPHS

*It is ordered:*

1. Global Expedited Package Services–Non-published Rates 3 (MC2012-4 and CP2012-8) is added to the competitive product list as a new product as discussed in the body of this Order.

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<sup>4</sup> See Docket Nos. MC2010-29 and CP2010-72, Response of the United States Postal Service to Chairman’s Information Request No. 1 August 4, 2012, question 7(c).

<sup>5</sup> The last GEPS 3 agreements were approved in Docket Nos. CP2011-34 through CP2011-38. See Docket Nos. CP2011-34 through CP2011-38, order No. 601, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010.

2. Changes in rates due to changes to the model contract and/or changes to the financial model must be approved in advance by the Commission pursuant to 39 CFR part 3015.
3. When there is a change in rates or classifications of general applicability that affects more than the input sheet of the financial model, the Postal Service shall file a request pursuant to 39 CFR part 3015 and include a complete updated model.
4. A copy of each contract along with the financial model inputs used to generate rates for each contract must be filed with the Commission within a reasonable time, e.g., within 10 days of the effective date of the contract.
5. Whenever the Postal Service notifies a mailer of a change in rates pursuant to Article 15 of the model contract, the Postal Service shall file with the Commission a copy of the notice along with the financial model inputs used to generate the new rates.
6. The Postal Service shall notify the Commission of the effective date of each contract. If any of the contracts terminates earlier than scheduled, the Postal Service shall inform the Commission prior to the new termination date.
7. Within 30 days of the expiration of each contract, the Postal Service shall file costs, volumes, and revenues disaggregated by weight and country group associated with that contract, including any penalties paid.

8. The Secretary shall arrange for the publication in the *Federal Register* of an updated product list reflecting the change made in the body of this Order.

By the Commission.

Ruth Ann Abrams  
Acting Secretary



CHANGE IN MAIL CLASSIFICATION SCHEDULE  
CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified at 39 CFR Appendix A to Subpart A of Part 3020—Mail Classification Schedule. These changes are in response to Docket Nos. MC2012-4 and CP2012-6. The Commission uses two main conventions when revising the product lists. The addition of text is indicated by underscoring. Deleted text is indicated by a strikethrough.

PART B—Competitive Products

2000 Competitive Product List

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Negotiated Service Agreements

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Outbound International

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Global Expedited Package Services—Non-published Rates 3 (MC2012-4  
and CP2012-8)

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